

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on October 26, 2006 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:

Gus Escher, Public Member (chairing the meeting, as the Authority's Vice Chair); Moshe Cohen, Public Member; Thom Jackson, Public Member (via telephone); Edward Tetelman, Designee of the Commissioner of Health and Senior Services; Freida Phillips, Designee of the Commissioner of Human Services; and, Maryann Kralik, Designee of the Commissioner of Banking and Insurance.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Jim Van Wart, Michael Ittleton, Suzanne Walton, Susan Tonry, Bill McLaughlin, Lou George, Carole Conover, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Hak Kim, AtlantiCare Regional Medical Center; Anastasius Efstratiades, Obermayer Rebmann Maxwell & Hippel; Greg Adams, Holy Name Hospital; Benjamin Noble, Meridian Health Assistance Corporation; Bob Palermo, John Doll, Elizabeth Banigan, Meridian Health System; Peter Cappiello, Meridian Nursing and Rehabilitation, Inc.; Jack Swire, Kari Fazio, Wachovia Bank; Bern Davis, Wolff & Samson; Robert Hood, East Orange General Hospital; John Grywalski, John Murphy, Cathedral Health System; Jim Freis, Drinker Biddle; Tom Scott, David Mebane, Saint Barnabas Health Care System; Daniel Deets, Deb Hoskins, Hunterdon Medical Center; Robert Evans, Paul Mohrle, Stephanie Gibbin, Bayonne Medical Center; Brad Backus, Lucas Hale, Glenn Wagner, Morgan Stanley; Kay Fern, Evergreen Financial; Danielle Cheung, JPMorganChase; Diane Lavenda, Sills Cummis; Mike Irwin, Citigroup; Howard Eichenbaum, GluckWalrath; Bill Mayer, DeCotiis, Fitzpatrick, Cole & Wisler; Patrick Oden, RJ & Associates; Rich Nolan, McCarter & English; Harriet Rubenstein, Health Professionals and Allied Employees; Chris Tucker, PNC Capital Markets; Thomas Papa, Treasury; and, Clifford T. Rones, Deputy Attorney General.

CALL TO ORDER

In the absence of the Authority's Chairman, Commissioner Fred M. Jacobs, Vice Chairman Gus Escher called the meeting to order at 10:05 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 25, 2006 Authority meeting. Complying with the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all newspapers with mailboxes at the Statehouse,

including *The Star-Ledger* and the *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

APPROVAL OF MINUTES

September 28, 2006 Authority Meeting

The minutes for the Authority's September 28, 2006 meeting were distributed for review and approval. Mr. Jackson offered a motion to approve the minutes; Dr. Cohen seconded. Mr. Escher voted yes, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes. The motion carried and the minutes were approved.

At this point, Ed Tetelman and Freida Phillips entered the meeting.

BOND SALE REPORT

South Jersey Hospital

Dennis Hancock reported to the members that the \$144,285,000 bond issue on behalf of South Jersey Hospital ("SJH") was priced on October 18th. The bonds, which were rated "Baa1" by Moody's, will be used to advance refund a portion of SJH's 2002 bond issue. In anticipation of the pricing, the senior manager hosted an investor call on October 13th in which more than 25 institutional investors were represented. The call was recorded and made available for other investors at their convenience. More than 10 investors who were on the original call placed orders for the bonds and accounted for more than \$50 million of allocation.

Market conditions led the underwriters to recommend a structure for the issue that included serial bonds with maturities from 2013 through 2026 and two term bonds, one maturing in 2036 and the other maturing in 2046. The coupon on every maturity was set at 5%, meaning that each bond would be sold at a premium. According to Mr. Hancock, it is generally recognized that the market's desire for premium bonds is a defense against increasing interest rates.

After an order period on Wednesday morning, underwriters adjusted the yields on some of the maturities due to investor interest and offered to purchase the bonds with yields based on the call date of July 1, 2016, ranging from 4.18% in 2013 to 4.78% in 2046. The all-in interest cost of the issue is 4.91%. As a result of the pricing, SJH will benefit from net present value savings of approximately \$8.8 million, which represents 6.13% of the original debt service requirements.

The proceeds have been invested in various maturities of State and Local Government Series securities until the call date of the refunded bonds in 2012. The issue is expected to close on November 8th.

Mr. Escher commended the large savings achieved by the refinancing of bonds that were issued as recently as 2002. Mr. Hancock noted that the hospital is pleased with the savings.

TEFRA HEARING & CONTINGENT BOND SALES

Variable Rate Composite Program, Tranche VII

Mr. Escher announced that, as required by the Tax Reform Act of 1986, the following portion of the meeting is a public hearing in connection with the Authority's Variable Rate

Composite Program (“COMP Program”), Tranche VII transaction. He welcomed everyone to participate in the discussion following a brief presentation on each of the borrowers.

Suzanne Walton requested the Members’ consideration of contingent sales of bonds on behalf of five borrowers through the Authority’s seventh tranche of its COMP Program. A separate series of bonds will be issued for each borrower, and the bond documents for each contain largely standard provisions. Each loan will be secured by a letter of credit obtained from a bank selected by the borrower, and each series of bonds will be initially sold as 7-day variable rate bonds.

A. AtlantiCare Regional Medical Center, Series 2006 A-1 Contingent Bond Sale

Ms. Walton presented the first COMP Program (Series 2006) bond sale on behalf of AtlantiCare Regional Medical Center. Proceeds would be used, along with other funds, to finance a portion of an expansion and renovation project at the Medical Center’s City Division including the construction of a new 7-story addition and renovations to the existing hospital space, construction of a bridge connecting the hospital to a parking garage, and the purchase of hospital equipment. Proceeds would also be used to fund capitalized interest and pay related costs of issuance. Ms. Walton introduced Hak Kim, Corporate Director of Finance for AtlantiCare Regional Medical Center.

BOND RESOLUTION

Anastasius Efstratiades of Obermayer Rebmann Maxwell & Hippel LLP, serving as bond counsel for the COMP Program, then summarized some general information pertaining to standard COMP Program bond documents. He explained that each of the Resolutions authorizes the issuance of the Authority’s tax-exempt bonds on behalf of a designated borrower. The Resolutions also approve the form of and authorize the execution of a Contract of Purchase, a Composite Limited Offering Memorandum, a Loan Agreement, an Indenture, and a Remarketing Agreement. The Resolutions also appoint The Bank of New York as Trustee, Bond Registrar and Paying Agent for the Bonds. Further, each individual Resolution defines contingencies that must be satisfactorily met prior to the issuance of Bonds, and authorizes the Executive Director to approve a substitute letter of credit provider in the event that final negotiations with an approved provider should fail. The Resolution requires that a bank’s rating should be the same or better than the Moody’s rating on the approved letter of credit provider.

Mr. Efstratiades then outlined contingencies associated with the Authority’s issuance of bonds for AtlantiCare Regional Medical Center. Included are a maximum bond size of \$25 million, a maximum underwriter’s discount of \$2 per \$1,000 of principal amount of bonds, a final maturity date of no later than December 1, 2032, and a redemption premium not to exceed 3%. The Resolution also authorizes JPMorgan Chase Bank to issue the letter of credit.

At this point, Mr. Escher announced that he would be recusing himself from any action related to the COMP Program, since he is an employee of PNC Bank, which has an affiliate participating in the program. He added for the record that he has had no involvement in any way or form with the COMP Program transaction to this point. At the Deputy Attorney General’s recommendation, Mr. Escher then asked for a nomination for a chair pro tem for the portion of the meeting that relates to the COMP Program borrowing. Ms. Phillips nominated Mr. Tetelman to serve as chair pro tem; Ms. Kralik seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-33

WHEREAS Vice Chair Gus Escher recused himself from actions relating to the Authority's seventh tranche of the Variable Rate Composite Program due to a potential professional conflict;

NOW, THEREFORE, BE IT RESOLVED, That Ed Tetelman serve as chair pro tem for the portion of the October 26, 2006 Authority meeting that relates to the COMP Program transactions.

Mr. Jackson then offered a motion to adopt the Resolution for AtlantiCare Regional Medical Center. Mr. Tetelman seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-34

NOW, THEREFORE, BE IT RESOLVED, That the Authority hereby approves the Resolution entitled, "RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM – ATLANTICARE REGIONAL MEDICAL CENTER PROJECT) SERIES 2006 A-1."

B. East Orange General Hospital, Series 2006 A-2 Contingent Bond Sale

Ms. Walton indicated that the proceeds of the bonds issued on behalf of East Orange General Hospital will be used to fund the construction of facilities to update and expand the emergency department and other related hospital facilities, finance the acquisition and installation of capital equipment, fund capitalized interest and start-up costs, refund the Authority's Series B Bonds, and pay the related costs of issuance. Ms. Walton introduced Robert Hood, Chief Financial Officer of East Orange General Hospital.

BOND RESOLUTION

Mr. Efstratiades explained that this Resolution, in addition to the other standard documents, approves the form of and authorizes the execution of an Escrow Agreement between the Authority, the Borrower and The Bank of New York acting as Escrow Agent. The Escrow Agent will hold in escrow the proceeds of the sale that are to be used for the refunding of the Series B Bonds, until the date of redemption of such bonds, which is currently set for January 2, 2007.

Mr. Efstratiades then outlined the following contingencies related to East Orange General Hospital's financing: a maximum bond size of \$14 million, a maximum underwriter's discount of \$2 per \$1,000 of principal amount of bonds, a final maturity date of no later than December 1, 2031 and a redemption premium not exceeding 3%. In addition, the Resolution authorizes that a letter of credit be issued by PNC Bank.

Ms. Phillips offered a motion to adopt the Resolution for East Orange General Hospital. Ms. Kralik seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-35

NOW, THEREFORE, BE IT RESOLVED, That the Authority hereby approves the Resolution entitled, “RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM – EAST ORANGE GENERAL HOSPITAL PROJECT) SERIES 2006 A-2.”

C. Meridian Nursing and Rehabilitation, Inc., Series 2006 A-3 Contingent Bond Sale

Ms. Walton stated that the Meridian Nursing and Rehabilitation bonds will be issued to provide funds to complete the construction of a two-story, skilled nursing facility in Wall Township. In addition, proceeds will be used for the repayment of certain funds advanced by affiliates of Meridian Nursing and Rehabilitation to pay certain costs incurred in connection with the new facility. Further, proceeds will fund working capital, capitalized interest and related costs of issuance. Ms. Walton introduced Peter Cappiello, Vice President of Development for Meridian Nursing & Rehabilitation, Inc.

BOND RESOLUTION

Mr. Efstratiades outlined the following contingencies related to Meridian Nursing and Rehabilitation, Inc.’s financing: a maximum bond size of \$5.5 million, a maximum underwriter’s discount of \$2 per \$1,000 of principal amount of bonds, a final maturity date of no later than December 1, 2036, and a redemption premium not exceeding 3%. In addition, the Resolution authorizes that JPMorgan Chase Bank issue a letter of credit.

Ms. Phillips offered a motion to adopt the Resolution for Meridian Nursing and Rehabilitation, Inc. Ms. Kralik seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION GG-36

NOW, THEREFORE, BE IT RESOLVED, That the Authority hereby approves the Resolution entitled, “RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM - MERIDIAN NURSING AND REHABILITATION, INC. PROJECT) SERIES 2006 A-3.”

D. MHAC I, LLC Project, Series 2006 A-4 & Series 2006 A-5 Contingent Bond Sales

Ms. Walton explained that MHAC I, LLC is a limited liability company formed to provide services benefiting Meridian Health System. Its sole member is Meridian Health System Assistance Corporation, a special purpose entity created by Meridian Health System to facilitate financings and acquisitions of property by or for the benefit of its non-profit corporations. MHAC I, LLC is wholly owned by a 501(c)(3) entity and, as a result, has the same 501(c)(3) status as its parent for purposes of issuance of tax-exempt bonds.

Ms. Walton advised that MHAC I, LLC will issue two series of bonds through the COMP Program on its behalf. The proceeds of the issues will be used to construct a five-story, 970-space parking structure, related power plant and a helipad on the roof (along with incidental equipment). The parking structure will be located on leased land owned by Meridian Hospitals Corporation (which will enter into a lease for the use of the garage) adjacent to the campus of

Jersey Shore University Medical Center. In addition, proceeds from the bonds will be used to fund the payment of capitalized interest and the payment of a portion of the costs of issuance.

The two series of COMP bonds will be secured separately. The Series A-4 Bonds, totaling approximately \$24 million, will provide the Letter of Credit bank with a security interest in the lease to the Meridian Hospitals Corporation for the use of the garage. The Series A-5 Bonds, totaling approximately \$11 million, will be secured by a mortgage interest in the garage and will not be repaid until Series A-4 matures. Ms. Walton introduced Benjamin Noble, Treasurer of Meridian Health Assistance Corporation, Bob Palermo, Vice President of Finance for Meridian Health System, and John Doll, Director of Finance, also from Meridian Health System.

BOND RESOLUTION

Mr. Efstratiades outlined the following contingencies related to MHAC I, LLC's financing: an approximate bond size of \$24 million for the Series A-4 bonds and an approximate bond size \$11 million for the Series A-5 bonds (not to exceed \$40 million in total between the two series), a maximum underwriter's discount of \$2 per \$1,000 of principal amount of bonds, a final maturity date of no later than December 1, 2027 for the Series A-4 bonds and no later than December 1, 2036 for the Series A-5 bonds and a redemption premium not exceeding 3% for both series. In addition, the Resolution authorizes Wachovia Bank to issue the letters of credit for both series.

Dr. Cohen offered a motion to adopt the Resolution for MHAC I, LLC. Ms. Phillips seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-37

NOW, THEREFORE, BE IT RESOLVED, That the Authority hereby approves the Resolution entitled, "RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM - MHAC I, LLC PROJECT) SERIES 2006 A-4 and NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM – MHAC I, LLC PROJECT) SERIES 2006 A-5."

D. FitnessFirst Oradell Center, L.L.C. Project, Series 2006 A-6 Contingent Bond Sale

Ms. Walton described FitnessFirst Oradell Center, L.L.C. ("FitnessFirst" or the "LLC") as a limited liability company, the sole member of which is Holy Name Hospital, formed pursuant to the laws of the State of New Jersey. The LLC elected to be treated as a partnership for federal income tax purposes, and, therefore, will be treated as part of the same organization as its sole member. Consequently, the LLC will enjoy the same tax status as its sole member, a 501 (c)(3) organization.

Bonds will be issued on behalf of FitnessFirst to finance the fit out of a building owned by a related organization for the development of a medically based health and fitness center, fund the upfront lease payments by the LLC related to the lease agreement, fund capitalized interest and pay related costs of issuance. Ms. Walton introduced Greg Adams, Senior Vice President and Chief Financial Officer of Holy Name Hospital. Mr. Tetelman asked for clarification on "medically-based health and fitness" to which Mr. Adams replied that the center will have two

components. One part involves 2,500 square feet of space that will be leased by the hospital for rehabilitation facilities. The rest of the facility will include fitness that is based on programs related to specific health issues or diseases, for example, a cardiovascular fitness program.

Mr. Jackson asked about Holy Name Hospital's debt to capitalization ratio, to which Mr. Hancock replied that the ratio is currently 37%, which is lower than the state median of 47%. Therefore, \$7 million is not a substantial amount of additional debt for the hospital.

BOND RESOLUTION

Mr. Efstratiades outlined the following contingencies related to FitnessFirst Oradell Center, L.L.C.'s financing: a maximum bond size of \$7 million, a maximum underwriter's discount of \$2 per \$1,000 of principal amount of bonds, a final maturity date of no later than December 1, 2032 and a redemption premium not exceeding 3%. In addition, the Resolution authorizes Bank of America to issue the letter of credit.

There were no questions and Ms. Phillips offered a motion to adopt the Resolution for FitnessFirst Oradell Center, L.L.C. Ms. Kralik seconded. Mr. Escher abstained, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-38

NOW, THEREFORE, BE IT RESOLVED, That the Authority hereby approves the Resolution entitled, "RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS (VARIABLE RATE COMPOSITE PROGRAM – FITNESSFIRST ORADELL CENTER, L.L.C. PROJECT) SERIES 2006 A-3."

Mr. Tetelman congratulated the borrowers on their respective approvals. He then closed the public hearing required by the Tax Reform Act of 1986 regarding the proposed COMP Program financings. At this point, having concluded the portion of the meeting involving a potential professional conflict for Mr. Escher, Mr. Tetelman turned the meeting back over to Mr. Escher to chair.

INFORMATIONAL PRESENTATIONS

A. Bayonne Medical Center

Bill McLaughlin began by introducing Robert Evans, President and Chief Executive Officer, and Paul Mohrle, Chief Financial Officer, both attending from Bayonne Medical Center. He then stated that Bayonne Medical Center ("Bayonne"), a not-for-profit 278-bed acute-care hospital, requested that the Authority consider the issuance of approximately \$85,000,000 of bonds on its behalf. The proceeds of the bonds are expected to be used to: renovate, expand and equip surgical units and a new cardiac catheterization theatre; renovate the pharmacy, laboratory and central supply room; acquire informational technology for use in endoscopy suites and other capital equipment; currently refund approximately \$35 million in bonds, representing all of the Series 1998 and Series 1994 bonds; reimburse Bayonne for previously acquired capital equipment; refinance various debt obligations, including various capital leases and a taxable line of credit; and, fund the Debt Service Reserve, capitalized interest and related costs of issuance.

The transaction is expected to be structured as a fixed interest rate financing and marketed as unrated bonds.

According to Mr. McLaughlin, it was recently reported that Bridge Regional Systems, Inc., a New York not-for-profit corporation, had entered into negotiations to acquire Richmond University Medical Center ("RUMC"), formerly Saint Vincent's, located on Staten Island. If the acquisition is successful, Bridge Regional Systems, Inc. would become the sole member of both Bayonne Medical Center and Richmond University Medical Center. None of the proceeds of this proposed bond issuance will be used to facilitate this transaction.

Bayonne's annual audited financial information shows that days cash on hand decreased from 74 days in 2004 to 62 days in 2005, which is less than the 2005 Statewide Median of 74 days. The hospital's operating margin for the years 2004 and 2005 was positive at 0.40% and 0.32%, respectively. For 2005 the debt service coverage was 1.17 times and the Cushion Ratio was 1.37 times. Days in accounts receivable were 88.91 days versus the statewide median of 49.89 days and the ratio of full-time employees per adjusted occupied bed was 5.97 versus a statewide median of 5.23. Unaudited six-month interim financial statements show a slight overall improvement from the same period last year.

Annual inpatient utilization trends for Bayonne show decreasing admissions and inpatient days. Length of stay has increased slightly from 6.49 days in 2004 to 6.62 days in 2005. The occupancy rate on licensed beds fell slightly from 63.58% in 2004 to 60.20% in 2005. Utilization statistics derived from interim financials indicating six-month performance are consistent with year-end 2005 results.

Mr. Tetelman asked the hospital representatives to speak on the Saint Vincent's purchase because, though it does not involve the proposed Authority transaction, it does effect the hospital's finances. Mr. Evans stated that Bayonne is pursuing the purchase of Saint Vincent's Hospital, a 500-bed acute care hospital on Staten Island that was recently reviewed by agencies of the State of New York. Bayonne expects to benefit from having a strong sister hospital in RUMC (the new name for Saint Vincent's Hospital). Assuming all approvals are acquired, Bayonne expects the transaction to close in December of this year.

Ms. Gibbin further explained the purchase, stating that the two hospitals will operate independently of one another; however, staff from RUMC is expected to help support and reopen the Bayonne obstetric department. Bayonne already works closely with the Saint Vincent's obstetrics department by providing clients in need of those services with free transportation to and from Saint Vincent's, which is approximately four miles from Bayonne.

Dr. Cohen asked if there are challenges associated with operating hospitals in different states, to which Mr. Evens stated that, though there is a legal demarcation between the two facilities, there are many examples of hospital systems that operate in this situation very successfully. He, himself, has experience working with a system of twenty-six hospitals in different states and many of the physicians have had, over the years, a tradition of backing up one another working in both facilities. Also, the hospitals already share the same patient base. Therefore, the challenges are not insurmountable.

Mr. Tetelman noted that, while Bayonne was profitable, it was by only a slight margin. Mr. Evans responded to Mr. Tetelman noting that Bayonne currently has a large elderly population, citing that the 2000 census determined that the largest increase in terms of demographics in Bayonne took place in the "age 55 and older" category. This population requires more inpatient services. However, the hospital does want to provide services for a younger population as well, such as obstetrics. Dr. Cohen noted that there is limited population growth in the Bayonne area. Mr. Evans noted that, though the city itself wants to remain a family community, growth is expected to occur at the margins of the community, such as that

seen at the Military Ocean Terminal Department. Also, city planning is considering extending the light rail to Bayonne.

Mr. Jackson expressed concern regarding the high numbers of days in accounts receivable and accounts payable. He asked what practices are being put in place to reduce these figures. Mr. Mohrle stated that days in accounts receivable have been reduced and the days in accounts payable, which have remained stable, are expected to improve through the purchase of Saint Vincent's as the two hospitals will benefit from being able to combine back offices.

Mr. Jackson asked what kind of new controls are being put into place pre-acquisition, noting that, having worked with many mergers, it is very important to have practices in place before an acquisition because they are very difficult to implement during a merger. Mr. Evans stated that the hospital is developing better efficiencies, starting with the supply chain, by renegotiating all contracts and reworking all of the hospitals' materials management. He noted that while some facilities are working to reduce length of stay numbers, that strategy may not be sound with Bayonne's population. Physicians cannot push a patient out before they are healthy enough to leave. Therefore, the hospital is working, instead, on reducing the cost of staying at the hospital.

Mr. Jackson acknowledged that there is a debate about lowering length of stay and he recognizes Bayonne's strategy in this area, noting that he is not personally very experienced in that area. He is, however, familiar with days in accounts receivable and payable statistics and, going forward perhaps at the next presentation, he'd like to be provided with more information on the controls being put in place to tackle the hospital's high numbers.

Mr. Hancock attempted to clarify the request, noting that the numbers in these two categories, up to the date of the information that is provided to the Members, seem to be increasing rather than decreasing. He asked Mr. Jackson, if the hospital addressed what happened to move those numbers in the wrong direction and how they have addressed that migration, along with some updated numbers on those two statistics, would that satisfy his concern? Mr. Jackson agreed that such information would be helpful for his consideration. Bayonne agreed to gather the information needed to provide insight in those areas, including information from projections prepared for the New York application for a Certificate of Need regarding the Saint Vincent's purchase. In addition, the Members are expected to have the benefit of a financial feasibility study to be reviewed at an upcoming meeting. This presentation was for informational purposes only; no action was required.

B. Hunterdon Medical Center

Mr. McLaughlin introduced Chief Financial Officer Daniel Deets and Director of Finance Deb Hoskins, both representing Hunterdon Medical Center ("Hunterdon"). He then described the Medical Center as a not-for-profit community teaching hospital located near Flemington, New Jersey, currently maintaining 178 acute care beds. It is the only acute care hospital located in its county.

Hunterdon requested that the Authority consider the issuance of approximately \$20,000,000 of bonds on its behalf, the proceeds of which are expected to be used to fund the construction and equipping of a new health and wellness center located in Clinton, New Jersey; purchase capital equipment; and fund the Debt Service Reserve, capitalized interest and related costs of issuance.

Mr. McLaughlin noted that on November 22, 2005, Members approved the Series Resolution for a proposed Hunterdon Medical Center Series 2006B issuance. As a result of

delays in securing the required approvals related to the provision of water for the health and wellness center, the time frame granted for the signing of a bond purchase contract elapsed. The Project outlined for this transaction is substantially the project anticipated in the previously adopted Series Resolution.

The transaction will be structured as a fixed rate financing. The Medical Center is currently rated “A-” by Standard & Poor’s and “A” by Fitch. It is expected that these ratings will not change as a result of this issuance.

Hunterdon’s annual financial information indicates that days cash on hand increased from 111.58 days in 2004 to 117.83 in 2005, which is materially stronger than the 2005 Statewide Median of 74.48 days. Hunterdon’s operating margin for the years 2004 and 2005 was positive at 2.59% and 2.80%, respectively. Debt service coverage is strong at 11.52 times as was the Cushion Ratio at 17.80 times for 2005. Days in accounts receivable were 49.55 days versus the statewide median of 49.89 days and the number of full-time employees per adjusted occupied bed was 6.50 versus a statewide median of 5.23. Unaudited six-month interim financial statements indicate continued solid performance.

According to Mr. McLaughlin, Hunterdon’s annual inpatient utilization trends are positive, showing increasing admissions and inpatient days. Length of stay increased from 4.64 days in 2004 to 4.92 days in 2005. The occupancy rate on licensed beds rose slightly from 60.08% in 2004 to 63.90% in 2005. Utilization statistics derived from interim financials indicating six-month performance are consistent with year-end 2006 results.

Mr. Escher commended Hunterdon for their impressive numbers. This presentation was for informational purposes only; no action was required.

C. Saint Barnabas Health Care System

Lou George began by introducing Tom Scott, Vice President of Healthcare Corporate Finance for the Saint Barnabas System, and David Mebane, Vice President of Legal Affairs for Saint Barnabas Health Care System (the “System”). Mr. George stated that the Authority is in the process of structuring a \$200 million financing on behalf of the System, the proceeds of which will be used to provide approximately \$100 million for construction and renovation projects at three hospital locations, provide approximately \$100 million to refinance portions of outstanding indebtedness, fund capitalized interest, fund a debt service reserve, and pay the related costs of issuance. The major objective of this transaction is to reduce the maximum annual debt service that ultimately affects the System’s coverage ratio. This is accomplished via a refinancing and extension of the final maturities.

The major components of the construction/renovation projects consist of the following:

- At Clara Maass Medical Center, the proceeds will be used to: construct a parking garage; and, renovate a surgical unit creating 13 private post-partum rooms and ancillary work areas.
- At Community Medical Center the proceeds will be used to: construct, renovate and expand 60,000 square feet creating 74 private patient rooms; construct a 185-slot parking garage; renovate and construct a comprehensive cancer center; and, renovate Surgical Operating Rooms to allow for endoscopy capabilities.
- At Newark Beth Israel Medical Center, the proceeds will be used to: renovate surgical department areas; expand the NICU’s nursing station and relocate the NICU respiratory lab; expand and renovate the Fast Track Unit creating an additional five bays; expand the Cohen Cancer Center through a phased renovation of existing vacant space; and, structurally repair three parking garages on the campus.

Many of these projects are either completed or already underway, therefore, proceeds will, in some part, be used to reimburse the System for costs already incurred.

According to Mr. George, the structure of the financing has not been fully determined at this point. However, it is anticipated that the debt will not be credit-enhanced and that there will be two Series of fixed rate bonds: a Series A issuance of approximately \$114 million using capital appreciation bonds and a Series B issuance of approximately \$71 million using current interest rate bonds. In addition, the System will contribute \$100 million of equity to the transaction to be applied to the advance refunding.

The Saint Barnabas System is the largest multi-hospital system in the state. It consists of seven freestanding hospitals and two children's hospitals with a total bed count of approximately 3,300 acute care beds. In addition, the System owns and operates a freestanding psychiatric hospital, ten long-term care facilities, two Medicare-certified home health care and hospice programs, two multi-specialty ambulatory care facilities, three outpatient behavioral health centers, and other various not-for-profit and for-profit entities.

Mr. George directed the Members' attention to updated Apollo Financial and Utilization data that was distributed to the Members at the meeting. According to this data, the System had an excess of revenues over expenses of \$30.9 million during 2004, while the data for 2005 shows a loss \$173,000. This loss is the result of a settled Medicare outlier payment dispute with the Justice Department during 2006 wherein they agreed to payback \$265 million over seven years. \$204.5 million, which represents the present value of this amount, was booked in their 2005 financial statements resulting in a total loss of \$204.7 million.

The Apollo data does not include the repayment in the financial "excess of revenues over expenses" because it would distort the financial ratios. He noted that the System has opined that this amount should be treated as an extraordinary item. With this exclusion, the System had a cushion ratio of 9.6 and a debt service coverage ratio of 1.83 as of December 31, 2005, compared to statewide medians of 7.59 and 2.6, respectively.

Mr. George stated that, in early July, members of the System visited the Authority and indicated that they were implementing an Enterprise Transformation Program to include revenue enhancement and expense management initiatives that are projected to generate \$16 million of net revenues during 2006. More recently, the System re-evaluated this program and now projects \$20.6 million of revenues or a 30% increase during 2006. The unaudited information as of June 30th, 2006 shows that some of these enhancements have taken effect and the System is reflecting an Excess of Revenues over Expenses of \$24.6 million at mid-year. Based upon this unaudited financial data, a cushion ratio of 7.53 has been calculated, and a debt service coverage ratio of 2.27 has been determined as of June 30th.

Because specific portions of the project exceed \$25 million, and in keeping with Authority policy, Mr. George introduced Susan Tonry to present the hospital management's financial projections representing Saint Barnabas Corporation (the "Corporation") and its affiliates and subsidiaries. The Corporation, doing business as the Saint Barnabas Health Care System, is the sole corporate member of the System's affiliated organizations and subsidiaries. The Saint Barnabas Obligated Group represents approximately 92% of the System's total revenues. The forecast period is the four years ending December 31st, 2010.

Projections show operating margins ranging from 1.59% in 2007 to 2.18% in 2010, excess margins ranging from 1.79% in 2007 to 2.79% in 2010, cash on hand ranges from 75 to 81 days, payables remaining at existing levels of 87 days, receivables remaining at existing

levels of 55 days, and debt service coverage ratios ranging from 1.59 to 2.99 times. In short, the projections predict steady financial performance.

Ms. Tonry reported that the effects of a potential \$125 million additional bond issuance during 2007, as well as the planned termination of a swap in 2007, are not included in these projections. However, sensitivity analysis suggests the net effect would be an increase in cash at the expense of a lower, but still acceptable, debt service coverage ratio in 2007 and beyond.

Ms. Tonry noted that it is important to consider assumptions made when evaluating financial projections. She then presented the key assumptions on which the above projections were based. In terms of volume, the inpatient admission level is projected to be 1% less than the 2006 levels during 2007 and 2008 representing declining inpatient trends, while outpatient volume is projected at the 2006 levels throughout the forecast period.

In terms of expenses, salaries and wages are expected to increase between 2-3.5% throughout the projection period, supply expenses are assumed to increase by 5% per year, and other expenses are expected to increase by 2%-3.6% per year. Fringe benefits are estimated at 24.3% of salaries and wages. The overall expenses would have been higher without incorporating the Enterprise Transformation Plan savings, which is expected to yield \$24.8 million in savings in 2007, and \$36.9 million annually thereafter.

In terms of revenues, Net Patient Care Service expects to rise between 3.1% -3.7% throughout the forecast period, and no change is expected in the Saint Barnabas payer mix. Revenue produced from implementation of the Enterprise Transformation Plan is forecasted at \$70.8 million in 2007 and \$76.3 million in 2008 and future years. These amounts may sound large, however, they represent only 3% of the System's total revenue. Total charity care dollars are projected to remain at current levels (approximately \$100 million/year).

Ms. Tonry noted that these assumptions made in the Saint Barnabas projections are generally conservative.

Mr. Jackson noted the projected debt service coverage ratios ranging from 1.59 to 2.99 times and asked what conditions would contribute to a ratio at the higher end of the range. Ms. Tonry replied that improvements in revenues and expenses resulting from the Enterprise Transformation Plan would yield a higher net operating income. This combined with the decreased maximum annual debt service required would result in an increased debt service coverage ratio.

Mr. Escher noted that the Enterprise Transformation Plan sounds like it could produce very big savings for Saint Barnabas, to which Ms. Tonry replied that, yes, the numbers projected are large, however, in terms of the System's finances, they represent only 3% of the total revenue. Mr. Tetelman wondered, still, if such high savings could be achieved, to which Mr. Scott replied that his management staff is extremely confident in their ability to achieve the projections.

Building on his commendation of Saint Barnabas' management team, Mr. Scott directed the Members' attention to the financial data for the year 2003, in which the System experienced an approximate loss of \$72 million revenues. Management reviewed operations and implemented significant changes, such as a 15% workforce reduction (about 3,000 employees), to eradicate the \$72 million loss. Mr. Scott remains confident that this team will continue to drive down expenses in the future to achieve these savings. He also noted that the bulk of the projected savings are derived from employee benefits, which previously required no employee contribution while most others in the market require one. By bringing labor costs in line with the rest of the market, Saint Barnabas will reap substantial savings.

Mr. Scott also expanded on the Enterprise Transformation Plan, stating that, when Saint Barnabas was in negotiations with Medicare, a consultant performed an analysis to determine its ability to pay. This detailed analysis provides the basis for the Enterprise Transformation Plan, relying heavily on contract enhancements, as the System strives to eliminate payer denials. The System is emphasizing the drive to get paid for the services that are delivered, said Mr. Scott. He then reiterated that the projections were conservative, including assumptions such as no increase for outpatient services, when the System is currently experiencing increases of approximately 3%.

Mr. Tetelman noted that Saint Barnabas has a substantial amount of debt with the Authority and stated that he would like to see the Enterprise Transformation Plan in print, if possible. Mr. Scott noted that, while Authority staff had been shown the plan in June, Saint Barnabas will distribute to the Members an updated version of this plan. This presentation was for informational purposes only; no action was required.

AMENDMENT TO THE 2006 BUDGET

Support for “Commission on Rationalizing New Jersey’s Health Care Resources”

Jim Van Wart reported to the Members that on October 12, 2006, Governor Corzine issued Executive Order No. 39 creating the *Commission on Rationalizing Health Care Resources*. The Commission is charged with performing the following tasks:

1. Assess the financial and operating condition of New Jersey’s acute care hospitals and analyze characteristics of the state’s most financially distressed hospitals to identify common factors contributing to their distress.
2. Map existing health services statewide, project future demand for physicians, hospitals, federally qualified health centers and other ambulatory care providers, and compare future demands with existing capacity.
3. Develop criteria for the identification of essential general acute care hospitals in New Jersey to determine whether a financially distressed hospital at risk of closing is essential to maintaining access to hospital care for the residents of New Jersey.
4. Develop criteria for the appropriate level of oversight and accountability where State assistance is being provided to financially distressed hospitals.
5. Develop and publish a State Health Care Resource Allocation Plan that promotes the rational use of state and private health care resources, labor, and technology and serves as the basis for reviewing and approving the development and/or redeployment of health care assets and services around the state.
6. Make recommendations to strengthen State oversight and ensure greater accountability of state resources.
7. Issue a written report of its findings and recommendations no later than June 1, 2007 to the Governor, Senate President, Senate Minority Leader, Assembly Speaker, and Assembly Minority Leader.

Mr. Van Wart stated that, as part of the Executive Order, the Governor indicated that, “in particular, the New Jersey Health Care Facilities Financing Authority shall assist the new [Commission] in accomplishing the purposes of this Order.” This assistance includes disseminating a Request for Proposals (“RFP”) seeking a consultant to aid this Commission. The RFP was prepared and advertisements were placed in the following newspapers at the cost

shown: The New York Times - \$8,400, The Wall Street Journal - \$3,000, The Newark Star Ledger - \$75, The Courier Post - \$86, and The Trenton Times (cost yet to be determined). The total cost of advertising for the RFP amounted to approximately \$11,600.

Mr. Van Wart noted that, with these unexpected and high advertising costs, the Authority's 2006 advertising budget has \$3,406 remaining for the rest of the year. On behalf of staff, Mr. Van Wart requested that the advertising budget for 2006 be amended with an addition of \$9,000, increasing the yearly total for this category to \$15,500.

Mr. Escher said he is glad that the Authority is able to help the Governor with this mission. He asked if there will be other costs to the Authority associated with the Commission, to which Mr. Van Wart replied that staff expects to request a budget amendment to pay the cost of the consultant's fee at a later meeting, as soon as the RFP process is completed and a firm is selected.

Dr. Cohen asked if the Authority expects to remain involved with the consultant and/or the Commission through the working phase. Mr. Hopkins and Mr. Tetelman noted that the Commission's creation has relied on valuable input from Steve Fillebrown; it is expected he will continue to work closely with the Commission on this task. Mr. Tetelman stated that Commissioner Jacobs discussed this Commission with some of his staff recently and made it clear that the goals and methods of the Commission are very broad at this point, however, much of the information to be reviewed at the hospitals will likely overlap with information and issues commonly discussed at the Authority.

Mr. Escher suggested Mr. Fillebrown present the Authority with updates on the Commission's activities during the monthly Authority meetings; Mr. Hopkins agreed that this would be informative for the Members. Mr. Hancock noted that the New York commission with similar directives has an informative website that the Members may want to review to get an idea of how a commission like this may function.

Mr. Tetelman offered a motion to approve the requested Amendment to the Authority's 2006 advertising budget; Ms. Phillips seconded. The vote was unanimous, and the motion carried.

AB RESOLUTION NO. GG-39

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves an amendment to add \$9,000 to the Authority's advertising budget for 2006, increasing the yearly total for this category to \$15,500, in response to the unexpected advertising expense associated with the *Commission on Rationalizing Health Care Resources*, created by Executive Order No. 39.

At this point, Mr. Escher announced that, due to a time constraint, he had to exit the meeting. He asked for a nomination for a chair pro-tem to serve for the remainder of the meeting in his absence. Ms. Phillips nominated Mr. Tetelman to serve as chair pro tem; Ms. Kralik seconded. Mr. Escher voted yes, Dr. Cohen voted yes, Mr. Jackson voted yes, Ms. Kralik voted yes, Mr. Tetelman voted yes, and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-40

NOW, THEREFORE, BE IT RESOLVED, That, in the absence of the Authority's elected chairman and vice chairman, Ed Tetelman serve as chair pro tem for the latter portion of the October 26, 2006 Authority meeting.

REQUEST FOR CONDITIONAL CONSENT

Cathedral Health Services

Ms. Tonry began by introducing John Grywalski, Executive VP and CFO of Cathedral Health System, and Jim Freis, Hospital Counsel from Drinker Biddle. She then described Cathedral Health Services ("Cathedral") as a controlled member corporation of Cathedral Healthcare System, a not for profit holding corporation. Cathedral consists of two hospital divisions, Saint Michael's Medical Center and Saint James Hospital, both located in Newark, New Jersey.

Cathedral currently has two issues of bonds outstanding with the Authority: a Series 1998 issue which is insured by the Department of Housing and Urban Development ("HUD") with approximately \$60 million outstanding, as well as the 2002 issues which is a series of private placements with General Electric Corp. and subsidiaries thereof with approximately \$8 million outstanding.

In 2004, Cathedral released its 2003 audited financial statements reporting losses of \$18.6 million and triggering covenant violations under the bond documents. In order to remedy these violations, Wellspring Consulting was hired to perform a study of the hospital operations and prepare a turnaround plan for Cathedral. In February 2005, the System's Board of Trustees passed a formal resolution accepting the recommendations of the consultants and directed management to implement the corrective actions. Subsequently, the board concluded that a change in management was necessary to effectuate the level of change that had to occur in the organization.

During the past year, the new management team has been committed to an open, cooperative relationship with Authority staff, welcoming attendance at revenue cycle and steering committee meetings on a regular basis. Among the many initiatives undertaken, management has successfully completed a reduction in workforce resulting in \$6 million in annualized savings, identified process improvements saving \$3 million annually in non-salary costs, and implemented a clinical documentation improvement program that will generate in excess of \$7.5 million in annual revenue.

At the same time, management has begun formulating key strategies to leverage the strength of the System, including plans for a CT Angiography Center in nearby Middlesex County, a Cardiac Primary Care Center in Kearny, the acquisition of da Vinci robot technology at St. Michaels Medical Center, and Balance Disorder and Physician Recruitment programs.

While Cathedral has made substantial progress in its turnaround efforts, it is still posting negative margins. Also, now able to meet its current obligations out of current operations, its biggest struggle is the burden of vendor obligations that have built up over time leaving little to no resources for implementation of the key strategic initiatives outlined.

For this reason, Cathedral has met with several providers of financing and has requested approval by HUD to enter into a six year, \$30 million line of credit financing with CIT Healthcare LLC. Of these funds, \$10 million would be used to pay down vendors while negotiating discount terms, \$6 million would be spent in working capital for the new programs aimed at increasing volume at the two hospitals, \$11 million would be allocated for facility

infrastructure improvements, and \$4 million would be set aside as a contingency reserve. It is expected that Cathedral Health Services will turn the corner to profitability in mid-2007 under this plan.

The financing would be secured by a first lien on Cathedral patient accounts receivable. HUD's consent to subordinate its lien on patient accounts receivable is required pursuant to the HUD Regulatory Agreement executed in 1998. Although HUD has done its own independent analysis of the risks and benefits of approving this transaction, it has become standard practice at HUD to request the issuer's consent before formally moving forward with such an approval.

It should be noted that because the CIT loan would not be through the Authority, there is no requirement that the proceeds be deposited with a trustee bank. However, the System has requested assistance from Authority staff in setting up a process to monitor the disbursement of these funds in the form of quarterly certifications and detailed accountings. Authority staff has agreed to work with the hospital to set up an independent trust and establish oversight criteria to ensure that the proceeds are spent in accordance with the identified initiatives and facilities.

On behalf of staff, Ms. Tonry asked that a resolution be passed by the Authority that will not object to HUD's approval of this loan and subordination of its first lien on accounts receivable, subject to Cathedral's compliance in limiting the use of funds to initiatives at St. Michaels and St. James, while providing a detailed quarterly accounting and certification as to the disbursement of funds while acknowledging that HUD will likely impose additional conditions to mitigate the overall risk.

Mr. Jackson asked what additional conditions are expected from HUD, to which Ms. Tonry stated that the most likely condition is the creation of a lock box for Cathedral's Medicaid receipts to be used to pay the mortgage costs. Other conditions will be known following their meeting that is scheduled for this afternoon. Dr. Cohen asked if the approval will have any affect on Cathedral's outstanding Authority bonds, to which the reply was no, because those bonds are insured by HUD, therefore, HUD is bearing the risk. Mr. Hopkins asked if General Electric Corp. had been notified of Cathedral's intended additional debt, to which Mr. Grywalski replied that Cathedral intends to notify General Electric Corp. after the soon-to-follow HUD meeting. He added that he anticipates no concerns from General Electric Corp. regarding the matter. Ms. Phillips requested that staff inform the Authority Members of the conditions imposed by HUD; Ms. Tonry agreed to do so.

Mr. Tetelman asked if the escrow funds could be put into one of the Authority's trustee banks, to which Mr. Van Wart replied that the funds could be placed with an Authority trustee, if the Members so desired. The representatives of Cathedral agreed to move forward with that intent.

Dr. Cohen offered a motion to approve the recommended Conditional Consent on behalf of Cathedral Health Services; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-41

WHEREAS, Cathedral Health Services seeks a loan that requires the Department of Housing and Urban Development ("HUD") to consent to subordinate its lien on patient accounts receivable, as required pursuant to the HUD Regulatory Agreement executed in 1998; and,

WHEREAS, it has become standard practice at HUD to request the bond issuer's consent before formally moving forward with such an approval; and,

WHEREAS, Cathedral Health Services' has agreed to limit the use of the loaned funds to initiatives at Saint Michael's Medical Center and Saint James Hospital; and,

WHEREAS, Cathedral Health Services will provide a detailed quarterly accounting and certification as to the disbursement of funds;

NOW, THEREFORE, BE IT RESOLVED, That the Authority hereby authorizes HUD to approve the loan on behalf of Cathedral Health Services, as well as the subordination of a first lien on accounts receivable.

AUTHORITY EXPENSES

Mr. Tetelman referenced a summary of Authority expenses and invoices. Ms. Phillips offered a motion to approve the bills and to authorize their payment; Dr. Cohen seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-42

WHEREAS, the Authority has reviewed memoranda dated October 26, 2006, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$680,851.80, \$51,093.59 and \$5,686.12 respectively, and has found such expenses to be appropriate;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

STAFF REPORTS

Mr. Tetelman referenced staff reports that were distributed for review, including the Project Development Summary, Interest Rate Trends Graph, Cash Flow Statement, Third Quarter Budget Report and a Legislative Advisory. Mr. Escher then turned the floor over to Mr. Hopkins to present his Executive Director's Report.

Mr. Hopkins then announced the following items:

1. The Authority's Finance Committee met on October 10th and discussed several items to be revisited at a follow-up meeting on November 6th at 10 a.m. The budget is expected to be presented at the Authority's November Meeting.

2. On September 25th, Governor Corzine issued Executive Order No. 37 ("E.O. 37"), which implements reforms to increase the transparency, efficiency and accountability of the State's independent authorities. E.O. 37 becomes effective after 60 days but authorities are expected to incorporate its mandates as soon as possible.

While many of the mandates are already practiced at this Authority, there are a few that have yet to be put in place, including periodic meetings between the Authority and the Governor's office to coordinate the Authority's activities with the State's economic growth strategies and goals, and the inclusion of a review of these strategies and goals in the Authority's annual report.

According to E.O. 37, authorities must also establish certain procurement policies such as: establishing procedures to publicly advertise contracts, posting procurement contracts on a state-wide website, creating transparent procedures for awarding contracts, generally awarding purchasing contracts to the lowest responsible bidder, using written scoring factors when evaluating proposals for professional and technical services and having them reviewed by an Evaluation Committee, providing equal opportunity to small businesses and businesses that are minority- or women-owned to compete for contracts, and summarizing the factors that lead to the contract selection within the resolution awarding the contract.

Pre-qualified pools of potential contract partners are still permitted for professional services (such as the Authority's qualified bankers list), but the procedures and criteria outlined in E.O. 37 must be used to create the pools. Also according to the order, senior management must annually review authority operations to identify inefficiencies, taking the appropriate remedial steps. This annual review will be reported to the Governor's Authorities Unit.

In response to a question from Ms. Phillips, Mr. Hopkins stated that the Authority had met with the Governor's Office in the past, however, to this point, the meetings did not involve a discussion of economic growth plans.

3. Governor Corzine's Executive Order 39, signed on October 12th, establishes the *Commission on Rationalizing New Jersey's Health Care Resources*, as discussed earlier in the meeting by Mr. Van Wart. The eleven-member Commission will be lead by Uwe Reinhardt, a world-renowned authority on health care economics and a Princeton University professor. No other members have been named as of yet. The Authority's RFP for a consultant for the Commission has a November 6th deadline for proposals. A recommendation for this consultant is expected to be made to the Authority Members at the November 21st meeting.

4. On October 23rd, New Jersey's Office of the Inspector General (the "OIG") released its "Summary and Analysis of State Authorities' Employee Benefits" (the "OIG Report"), which was one of the reports required under Governor Codey's Executive Order 41. E.O. 41 directed the OIG to assess the internal controls at every authority in order to recommend uniform practices and procedures to be established for all State authorities. This review primarily compared authority employee benefits practices and procedures with those of the State. The report recommends that, "to the extent possible and appropriate, consideration be given to establish policies of the authorities consistent with those of the state."

This Authority's salaries are well within the broad range at the State and are generally consistent with those at other authorities. This Authority also provides the same health benefits, deferred compensation plan and retirement benefits (PERS) that the State provides. Also, like many State departments and other State authorities, the Authority provides vehicles to employees, in the Authority's case, five assigned vehicles and one pool vehicle.

In fact, the OIG Report identifies only a few areas of deviation between practices of this Authority and the State, namely: (i) the Authority participates in the Economic Development Authority's dental and vision programs rather than the State's; (ii) the Authority has its own policy regarding reimbursement for cell phone use, though this does not materially differ from the State policy; (iii) when an employee uses a personal car for Authority business, this

Authority reimburses the employee at the Internal Revenue Service's rate of 44.5 cents/mile, rather than the State's rate of 31 cents/mile; (iv) and, this Authority permits a reimbursement of up to \$25 per day for meals if an employee works over 10 hours a day and is traveling on Authority business, while the State reimburses \$5 for breakfast, \$7 for lunch and \$10 for dinner for non-overnight travel. Vacation time for the Authority's staff also varies slightly from the State policy. The Authority provides 12 vacation days for each of the first five years of employment, 15 days for those with five to seven years and 20 days for those with eight years or more. The State provides the same 12 days for each of the first 5 years, but then adds one day per year until the 12th year, when an employee has 20 days until they have served 20 years, at which point they receive 25 days. Also, this Authority does not accept accrued vacation time when transferring from another State or local entity but it does transfer accrued sick time.

Some differences between the Authority and the State not picked up on by the OIG: (i) the Authority's employees may "cash in" unused vacation days each year under certain circumstances (this is also permitted at six other State authorities). As long as an Authority employee has taken a minimum of ten vacation days, he or she may request payment for vacation days have been unused (up to a maximum of ten); (ii) the Executive Director receives 20 vacation days upon hire (the EDA, EFA and Transportation Planning Authority provide 25, 22 and 20 days their executive directors upon hire, with some high level staff also receiving additional vacation); (iii) the OIG incorrectly noted that the Authority provides vision coverage through the Economic Development Authority's plan; in fact the Authority provides direct reimbursement to employees and their dependents for non-medically reimbursed eye care including exams, glasses or contacts up to \$250 per employee and dependent per year.

Another differences not picked up by the OIG is that the Authority provides post-retirement health care benefits to employees who: retire due to disability, retire with 25 years creditable service in the Public Employees Retirement System (PERS) and a minimum of 10 years employment with the Authority, retire with 25 years creditable service in PERS with a minimum of six years at the Authority and at a minimum age of 65 years, or retire at a minimum age of 62 with at least 15 years employment with the Authority. This benefit arose from a notification from the Division of Pension and Benefits in May of 1999 that Chapter 48, P.L.1999 gave the flexibility to local employers (which includes the Authority) to define its post-retirement medical benefits policy and provided certain options for implementation. After significant analysis and discussion among the Members at Authority meetings, the present policy was adopted at the December 2000 meeting and the resolution was filed with the State Health Benefits Program, as required.

5. In hospital news, Jersey City Medical Center released the Final Consultant's Report from Wellspring along with its implementation plan.

Also, a key Committee of the New York State Health Department approved Bayonne Medical Center's plan to take over St. Vincent's Staten Island Hospital. While several other committees need to approve the proposal, according to newspaper reports, this committee's action virtually guarantees the proposal's final approval.

The Governor appointed Anthony J. Leitner, Esq. to serve on the Hoboken Municipal Hospital Authority. The names of the other members were provided at the Authority's last meeting. The management contract to operate the former St. Mary Hospital, which was expected to be considered by the Local Finance Board this month, is not yet complete so it will either be heard at a special meeting in November or at the regular meeting in December.

6. In closing, Mr. Hopkins reported that Steve Fillebrown is currently speaking at the New Jersey Institutional Investors' Conference in Newark, New Jersey.

EXECUTIVE SESSION

Mr. Tetelman asked, as permitted by the Open Public Meetings Act and the Authority's By-Laws, for the Members to meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General. He noted that the results of the discussion would be made known at such time as the need for confidentiality no longer existed. Ms. Phillips offered a motion to enter the session; Dr. Cohen seconded it. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-43

NOW, THEREFORE, BE IT RESOLVED, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General.

BE IT FURTHER RESOLVED, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. As there was no further business to be addressed, Mr. Tetelman moved to adjourn the meeting, Ms. Kralik seconded. The vote was unanimous, and the motion carried at approximately 1:40p.m.

I HEREBY CERTIFY THAT THE
FOREGOING IS A TRUE COPY OF
MINUTES OF THE NEW JERSEY
HEALTH CARE FACILITIES
FINANCING AUTHORITY MEETING
HELD ON OCTOBER 26, 2006.

Dennis Hancock
Assistant Secretary